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ACTION AF-00

INFO	LOG-00	NP-00	AID-00	AMAD-00	CEA-01	CIAE-00	CTME-00
	DODE-00	DOFE-00	SRPP-00	DS-00	EB-00	EUR-00	EXIM-01
	E-00	FAAE-00	VC-00	FRB-00	H-01	TEDE-00	INR-00
	IO-00	ITC-01	LAB-01	L-00	VCE-00	AC-01	NEA-00
	NSAE-00	OIC-02	OMB-01	OPIC-01	PA-00	PM-00	PRS-00
	ACE-00	P-00	SP-00	SSO-00	STR-00	USIE-00	EPAE-00
	PMB-00	DSCC-00	DRL-02	G-00	NFAT-00	SAS-00	/012W
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FM AMEMBASSY HARARE  
TO SECSTATE WASHDC PRIORITY 9700  
INFO SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
NSC WASHDC  
USDOC WASHDC  
DEPT OF TREASURY WASHDC  
AMEMBASSY NAIROBI

C O N F I D E N T I A L HARARE 002692

SIPDIS

STATE FOR AF/S, AF/EPS, EB/IFD/ODF, EB/TPP/ODC  
TREASURY FOR ED BARBER, AND C WILKINSON  
USDOC FOR 4510 ERIC HENDERSON  
STATE PASS USTR/RWHITTAKER  
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER  
LONDON FOR CGURNEY  
PARIS FOR NEARY

E.O. 12958: DECL: 09/13/06

TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ZI](#)

SUBJECT: IMF ARTICLE IV REVIEW TEAM PROVIDES A BLEAK OUTBRIEF  
AND A GLIMPSE OF THE LIBYA OIL DEAL

CLASSIFIED BY ECON/COMM OFFICER MARK PROKOP, REASON 1.5 (B),  
(D)

REFS: A) HARARE 2577, B) HARARE 2022, C) HARARE 2531, D) HARARE  
2533, E) HARARE 2247

1. (C) ON SEPTEMBER 12 THE IMF RESREP, GERALD JOHNSON, AND THE  
NEW IMF COUNTRY TEAM LEADER, DAVID COE (REPLACING PAULO  
NEUHAUSS), PROVIDED THE DCM AND ECONOFF WITH AN OUTBRIEF ON THE  
TEAM'S TWO WEEK ARTICLE IV REVIEW OF ZIMBABWE. COE PROVIDED NO  
SURPRISES OR BOMBSHELLS, AND LAID OUT AN ASSESSMENT OF THE  
COUNTRY THAT MATCHES OUR OWN, AS PROVIDED IN OUR REPORTING.  
COE'S SUMMARIZED OBSERVATIONS ARE THAT THE SITUATION IS DIRE,  
AND ZIMBABWE'S ECONOMIC DECLINE IS ACCELERATING. OUTPUT, WEAK  
FOR FOUR YEARS, IS NOW DECLINING MORE RAPIDLY THAN WAS THE CASE  
DURING THE LAST TEAM VISIT SIX MONTHS AGO. THEIR ESTIMATE OF  
REAL GDP DECLINE FOR THE CALENDAR YEAR IS A MINIMUM 7 TO 8  
PERCENT, VERY POSSIBLY MORE. THE SHARP SLIDE IS EXACERBATED BY  
POOR MACROECONOMIC POLICIES (PRINCIPALLY ACCELERATED MONEY  
SUPPLY GROWTH (REF A), THE LOW INTEREST RATE REGIME (REF B) AND  
THE VERY UNREALISTIC OFFICIAL PEGGED FOREX RATE), AND THE  
PRIMACY OF POLITICS OVER ECONOMIC REALITIES AND REQUIRED STEPS.

12. (C) THE TEAM LABELED THE ATMOSPHERE AT THE RESERVE BANK AS  
"SURREAL", BUT HAD PRAISE FOR THE FINANCE MINISTRY'S HARD LINE  
ON A TIGHT FISCAL POLICY. ON THE LATTER TOPIC THE IMF OFFICIAL  
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TOLD US THAT, BARRING A BLOWOUT CAUSED BY AN UPCOMING  
SUPPLEMENTAL BUDGET, THE 2001 GOVERNMENT DEFICIT IS CURRENTLY  
PROJECTED TO FALL WELL WITHIN THE TARGET OF 15.5 PERCENT OF  
GDP. THE BIGGEST SUCCESS COMPONENT IS REDUCED INTEREST  
EXPENSES DUE TO THE GOVERNMENT-INDUCED LOW INTEREST RATE  
REGIME, AS WELL AS THE RESTRUCTURING OF THE MATURITY PROFILE OF  
OFFICIAL, DOMESTIC DEBT. ALTHOUGH THE FINANCE MINISTRY HAS  
KEPT THE SCREWS TIGHT, NON-INTEREST EXPENDITURES HAVE SWOLLEN  
SLIGHTLY AND ARE PROJECTED TO RESULT IN A 3.5 PERCENT OF GDP  
DEFICIT, VERSUS A TARGETED 2 PERCENT OF GDP SURPLUS. COE ALSO  
TOLD US THAT HE FULLY EXPECTS ANNUAL INFLATION TO BE IN THE  
THREE-DIGIT RANGE WELL BEFORE YEAREND, IF IT IS NOT ALREADY AT  
SUCH LEVELS (REF C). BOTH IMF PERSONNEL AGREED FULLY THAT NO  
TURNAROUND EFFORTS CAN BE EXPECTED UNTIL THE PRESIDENTIAL  
ELECTION IS CONCLUDED.

13. (C) TO OUR INQUIRY ON ANY DETAILS OF THE LIBYAN OIL DEAL  
THEY MIGHT HAVE GLEANED (REFS D, E), THE IMF TEAM LEADER LAID  
OUT AN UNUSUAL FINANCIAL STRUCTURE THAT HAD BEEN PROVIDED THEM  
BY THE OIL PARASTATAL, NOCZIM (WE HAVE NO CONFIRMATION OF  
SUCH AN ARRANGEMENT BY ANY OTHER SOURCES). MR. COE EXPLAINED  
THAT THE LIBYANS (PER NOCZIM OFFICIALS) ARE COMMITTED TO  
PROVIDING TWO SHIPS A MONTH AT 21,000 MT OF REFINED PRODUCT  
EACH. ON THE PAYMENT SIDE, NOCZIM CLAIMED THAT A 270-DAY GRACE  
PERIOD FOR HARD CURRENCY REMITTANCE (COMMENCING WITH THE

UNLOADING) IS A TERM OF THE DEAL, THOUGH ZIMDOLLAR PAYMENT INTO A LOCAL ACCOUNT WAS DUE ON DELIVERY. THE DEAL IS STILL BEING NEGOTIATED, WITH DIFFERENCES OVER WHAT EXCHANGE RATE TO USE BEING THE BIGGEST POINT OF CONTENTION (THE GOZ NATURALLY WANTS TO FUND THE LOCAL CURRENCY ACCOUNT AT THE OFFICIAL RATE OF Z \$55 TO ONE USD; WHILE THE LIBYANS WOULD LIKELY BE MORE  
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COMFORTABLE WITH THE BUILDUP BEING AT THE PARALLEL RATE, CURRENTLY SOMEWHERE BETWEEN \$330 AND \$360). THE RESREP ALSO STATED THAT THERE WAS A BARTER COMPONENT, THOUGH HE DID NOT KNOW WHAT THE EXPORTS WOULD CONSIST OF, AND ALSO ASSET PURCHASES, WITH THE OIL PIPELINE FROM BIERA AND NOCZIM STORAGE FACILITIES THE LIKLIEST INITIAL CANDIDATES.

14. (C) COMMENT: IT IS CLEAR THAT SOME DEAL WITH THE LIBYANS IS BEING FINALIZED, THOUGH GETTING SOLID INFORMATION ON THE TERMS WILL TAKE ADDITIONAL TIME. A DEFERRED PAYMENT PLAN FOR THE HARD CURRENCY IS WITHOUT DOUBT VERY ATTRACTIVE TO THE CURRENT ADMINISTRATION, AS IT PUSHES THE PAINFUL ACT OF PAYMENTS OFF UNTIL AFTER THE ELECTIONS. WE ARE HIGHLY CERTAIN THAT THE FINAL TERMS WILL REQUIRE MORE OF ZIMBABWE THAN CURRENTLY MEETS THE EYE, AND THAT THE CONSEQUENCES OF THIS RECENTLY EXPANDED FRIENDSHIP WITH LIBYA WILL NOT BE ALL FOR THE POSITIVE.

ROTH

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